

Tech start-ups don't grow on trees outside USA

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By Kevin Maney, USA TODAY



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By Ian Mainsbridge, AP

In this Internet era, when it often doesn't matter where a company is located, countries on every continent want to conjure the entrepreneurial magic of Silicon Valley. Sydney start-ups suffer from a fear of failure.

SYDNEY — Fifteen of the city's top venture capitalists line a table in a glass-walled room overlooking Sydney Harbour — the famous Opera House in full view to one side, the soaring Sydney Harbour Bridge on the other.

The VCs had never before assembled like this, but now they are talking about why Australia can't muster the entrepreneurial, start-up gusto of a Silicon Valley. Why isn't it producing a Google or YouTube or Salesforce.com? Australians need to be less fearful of failure. There's not enough money for early-stage investments. The country has too few native role models.

Yet, the very existence of 15 VCs in a room, unlikely just a few years ago, is a sign of progress, the group concludes. "Come back in five years, and we'll need a bigger room," says Su-Ming Wong, managing director of Sydney's Champ Ventures.

Similar conversations are happening all over the world. In this Internet era, when it often doesn't matter where a company is located, countries on every continent want to conjure the entrepreneurial magic of Silicon Valley.

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ENTREPRENEURSHIP REIGNS

Global Entrepreneurship Monitor, a group that has studied levels of entrepreneurship since 1998, finds that three times more U.S. adults engage in "high-expectation entrepreneurship" compared with those in Europe or Japan. GEM's 2005 findings:

By region

Percentage of adults involved in start-ups that expect to have 20 or more employees within five years:

North America (USA, Canada): 1.5%

Oceania (Australia, New Zealand): 1.1%

Latin America: 1.0%

Developing Asia (China, Malaysia, etc.): 0.8%

Africa: 0.7%

Europe: 0.5%

Developed Asia (Japan, North Korea, etc.): 0.5%

World average: 0.9%

By specific nations

Percentage of adults involved in start-ups that expect to have 20 or more employees within five years:

USA: 1.6%

United Kingdom: 0.7%

Ten years ago, Malaysia hung its hopes on its Multimedia Supercorridor outside Kuala Lumpur. Singapore launched a national broadband project called Singapore One, hoping it would create a tech haven. Finland two years ago handed the job of sparking entrepreneurship to charismatic former prime minister Esko Aho. Dubai is in the process of building a tech zone it's calling Internet City.

Of potentially the greatest impact, China's leadership has begun pushing for entrepreneurship, saying the nation needs to come up with its own innovations.

Yet success in most countries has been elusive. The Multimedia Supercorridor has attracted little money or business. Finland still has no comparable follow-up to its one superstar company, Nokia.

Australia has fared better than most, turning the Australia-New Zealand region into the second-most entrepreneurial region after North America, according to a study by Global Entrepreneurship Monitor (GEM).

"It's not easy to re-create" the success of Silicon Valley, says Bjoern Christensen, a Dane who for years ran the venture arm of Germany's Siemens and is now managing director of Viking Ventures in Woodside, Calif. He says the U.S. start-up culture "is like generations of people where the gene pool gets better and better. The magic is in the DNA."

Which brings up a few questions being asked by world leaders: What does it take to engender a Silicon Valley-style start-up culture? What has gone right or wrong in other countries trying to do that? And can it be done at all?

At first glance, China seems to be on the right track, churning out a couple of dozen tech companies — such as Baidu and

Germany: 0.7%
Sweden: 0.5%
Spain: 0.2%

Source: *Global Entrepreneurship Monitor Consortium*

INGREDIENTS TO NURTURE TECH START-UPS

Countries around the world are trying to put together the pieces that foster entrepreneurship, especially in technology. A breakdown of those pieces, according to experts:

Structure

It starts with laws that protect property and make it easy to do business and hire and fire people. It's also the technology infrastructure, especially communications networks. A critical piece is a financial community willing to invest in tiny, risky companies. In that regard, the venture-capital community in Silicon Valley is unique.

Cultural attitudes

This one is more subtle but just as important. It starts with the way kids are taught, the way government operates and long-established cultural tendencies.

"A flourishing entrepreneurial economy requires a culture that values individualism, does not penalize people for trying and failing, and assumes individuals will work at many companies throughout their careers," says Bruce Judson, author of *Go It Alone!* and a faculty fellow at Yale School of Management. That combination is hard to find around the world.

Talent pool

Finland has only 5 million people to draw from; Australia, 20 million; USA, 296 million. Even if Australia gets good at entrepreneurship, says Sydney venture capitalist David Landers, "We just don't get that many shots on goal."

Talent is also a chicken-and-egg problem.

NetEase — that have had initial public offerings of stock, or IPOs, on the Nasdaq. Chinese PC company Lenovo last year bought IBM's PC division, vaulting Lenovo to world-class level.

But for a whirlwind economy of 1.2 billion people, it has created relatively few successful start-ups. Chris Chen, CEO of Beijing software company Worksoft, says there is almost no domestic venture capital. Chinese start-ups typically raise money from friends and family. Bank loans to grow are hard to find, and so are experienced managers. Then there's the Asian abhorrence of failing and losing face, preventing many would-be entrepreneurs from taking a chance.

"When we decided to grow fast," Chen says, "we needed capital and international expertise" from outside China. Worksoft raised money from U.S. VC firm Doll Capital Management and hired some executives who were born in China but had moved to the USA to go to college and work.

Andrew Hu, the Asia/Pacific chief of U.S.-based tech company Wyse, says China's education system is one reason it has too few world-class entrepreneurs. College admissions are based on exams, Hu says. Unlike in the USA, it doesn't help to be captain of the soccer team. And the way to get high exam scores is to learn by rote and obey instructions. The young people who excel at those traits get into the best universities, which graduate an elite class of brilliant followers, Hu explains.

Similar problems get in the way in much of Asia. Singapore's citizens have key ingredients for tech entrepreneurs: top science and math scores, a prosperous economy, access to capital and a high broadband penetration rate thanks to Singapore One. But the nation has seen little entrepreneurship.

"Singaporeans are good at taking orders, but they don't think outside the box," says Usha Haley, a professor at the University of New Haven and author of five books on Asian business. She blames the exam-based, rigid education system and an authoritarian regime that tells its people to think creatively but not about government or the nation's way of life. "It's like saying, 'We want you to develop a sense of humor between 2 and 4 in the afternoon,' " Haley says. "It doesn't work that way."

Many South American countries also suffer from the impact of authoritarian governments. "All our countries have vertical decision-making" from a powerful president on down, says Buenos Aires tech consultant Alberto Garcia Carmona. "And these decisions usually are made to preserve the political power (of the government) and the economic power of those who helped them to be there."

Other parts of the world run into different roadblocks. "The stigma of failure in Denmark or Germany is extreme," says venture capitalist Christensen. "It's almost like your kids won't talk to you anymore." That keeps a lid on people taking a chance starting a company, or investing or working in a start-up. In Europe, about one-third as many people get involved in entrepreneurship as in the USA, the GEM study says.

In Finland, Aho heads the Finnish Foundation for Research and Development, also known as Sitra. It has set up technology incubators, funded biotech companies and preached the gospel of start-ups — so far, with mixed results. "Entrepreneurship is one of the big challenges," Aho says, noting that Finland's semisocialist welfare state has dulled the concept of risk-taking. Aho says that's a problem throughout Europe.

What works, and what countries have succeeded?

Australia desperately needs serial entrepreneurs people who have started companies, know how to do it and can keep starting them, says Ralph Petroff, a U.S. entrepreneur spending a year in Australia. But the country needs a first batch of successful entrepreneurs to begin the cycle. The same is true in China, Finland, India and other nations.

"Ireland and China are two major examples," says Maria Minniti, a Babson College professor who works on the GEM study. Both nations opened their markets, created laws that make it easier to start and close a business, and are attempting to remove the "social stigma attached to failure," Minniti says.

Ireland has become the most dynamic economy in Europe, its gross domestic product growing 5% to 10% each of the past 10 years. Tech start-ups backed by a national program called Enterprise Ireland grew exports by \$1.5 billion in 2005, to \$13.5 billion. Yet at the same time, the Irish Venture Capital Association is critical of the amount of VC money going into start-ups. It calculates that just 0.04% of GDP goes into venture investing, vs. 0.2% of GDP in the USA.

China is a work in progress, only beginning to encourage entrepreneurs. On June 20, its first domestic IPO, CAMC Engineering, raised about \$56 million.

Israel has shown it has the entrepreneurial spirit and has had two significant Internet successes — ICQ (the original chat software) and Shopping.com (sold to eBay for \$634 million). Yet while companies arise from Israel, they rarely stay there. They either move to the USA or get sold to other companies abroad. And venture capital often comes from overseas — Israeli VCs raised \$1.2 billion in 2005, less than Ireland — so Israeli start-ups are often largely owned by foreign investors.

Australia, meanwhile, continues its push for tech start-ups. In 2002, the government funded National ICT Australia (NICTA), a technology incubator that houses 55 research projects it hopes to turn into viable companies. And as the VCs around the table in Sydney show, the nation's venture funds are growing. VC firms raised a record \$2.2 billion in 2005, according to the Australian Venture Capital Association Limited. That compares with \$22 billion raised by U.S. VC firms.

In any country, though, it's proving difficult to put together the structure, cultural attitudes and talent pool that drive a high level of entrepreneurship. For now, Silicon Valley, and the USA in general, is the only place where all the key elements come together.

The U.S. system isn't perfect. It fosters booms and busts and undisciplined uses of capital. For instance, more than 170 Internet video services have been funded in the USA, largely in response to YouTube's success. Few are likely to be around in three years.

But countries will continue to try to replicate the Silicon Valley magic, or find their own paths to entrepreneurship, with varying degrees of luck.

"Newcomers like Australia are trying, but are they going to make it?" says Christensen, who just returned from looking at start-ups in Sydney. "I don't know. It will take five or 10 years to see if they do it right."

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